

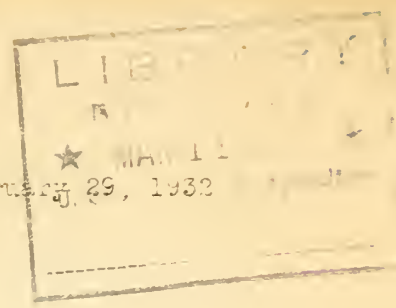
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UNITED STATES DEPARTMENT OF AGRICULTURE  
Bureau of Agricultural Economics  
Washington



T-10

THE TOBACCO PRICE SITUATION

The present tobacco situation is characterized by large supplies of leaf, a diminishing rate of consumption of tobacco products, declining exports, and very low prices to growers. These have resulted primarily from the curtailed buying power of consumers, the relatively high prices of tobacco products, disturbed conditions in international finance, and increasing tariffs in foreign countries. For some of the types increased competition from foreign-grown leaf also has been an important factor.

Tobacco: Average price per pound received by producers, by types, seasons 1930-31 and 1931-32

Class and type	Type number	1930-31		1931-32	
		Type	final	sales to	season
		number	season	February 1	average
			Cents	Cents	
Flue-cured, all types .....	11-14		12.0		8.5
Virginia and Central North Carolina .....	11		11.0		7.8
Eastern North Carolina .....	12		13.4		9.0
South Carolina belt .....	13		12.4		10.2
Georgia and Florida .....	14		10.0		6.4
Burley (Kentucky averages) .....	31		15.0		9.0
Fire-cured --					
Virginia .....	21		8.3		4.6
Clarksville and Hopkinsville (Ky.) .....	22		7.5		5.5
Paducah (Ky.) .....	23		5.3		5.6
Henderson .....	24		6.9		3.4
Dark air-cured --					
One sucker .....	35		7.0		3.2
Green River .....	36		8.9		3.2
Virginia sun-cured .....	37		7.7		5.5
Cigar filler, all types .....	41-45		8.3		1/ 9.2
Cigar binder, all types .....	51-55		15.3		1/ 11.3
Cigar wrapper, all types .....	61-65		30.1		1/ 39.5

1/ Estimates of Crop Reporting Board, December 12, 1931.

Major price declines, as compared with 1930-31, have been experienced in practically all types of tobacco in the United States, but the amount of decline has been greater for some of them than for others. In general, prices for the dark air-cured and fire-cured types have shown the greatest reductions. However, in most parts of the flue-cured belt and in the burley producing areas reductions in prices of 30 per cent or more below those of 1930-31 have been quite common. The above comparisons are all the more striking when it is considered that the 1930-31 prices themselves were very low and that many

of the sales reports in 1931-32 have contained less than the normal proportion of the lower grades of leaf. Buyers in all sections have been unusually hesitant about bidding upon these low grades, and frequently the prices offered for them have been insufficient to cover the costs of marketing. Nevertheless the volume of farmers' offerings has continued at a relatively high level and, in spite of heavy rejections in some sections, it seems likely that most of the 1931 production which can be marketed will be sold from first hands by the end of the season.

#### Supplies in the United States

The total supply of tobacco of all types in the United States at the opening of the 1931-32 season was the largest on record. Production was estimated to be about 1.5 per cent less than the record crop of 1930, but stocks of old tobacco increased more than enough to offset this decline.

Among the cigarette types, flue-cured production was reduced about 24 per cent in 1931, as compared with 1930, but due to an increase in stocks the total supply was only 8 per cent below that of 1930. The production of burley again was increased materially in 1931 and stocks continued to accumulate. Total supply for the season was about 25 per cent larger than that for 1930-31. The production of Maryland tobacco also was increased in 1931 and the total supply of this type was about 50 per cent larger than the total supply in 1930-31.

In the dark air-cured and fire-cured districts production and stocks both were increased in 1931. Larger yields per acre, as compared with 1930, appear to have accounted for most of the increase in production, but acreage also was increased for several of the important types.

The production of cigar tobacco was about 4 per cent larger in 1931 than in 1930. This was due largely to improved yields per acre, principally in the Pennsylvania Seedleaf district, rather than to increased acreage. Stocks of most types increased during 1931 so that total supply for 1931-32 was larger than at any time during the past five years. Most of this increase in supply occurred in the binder grades.

#### Domestic demand

The demand for the 1931 crop of tobacco has been influenced materially by the present declining rate of consumption of tobacco products. For some classes of products consumption declined throughout 1931, but the amount of decline and the number of products affected were much greater during the second half of the year than during the first. Total consumption for 1931, as indicated by tax-paid withdrawals of internal revenue stamps, was approximately 4 per cent less than in 1930. Except for an apparent small increase in smoking tobacco, which occurred during the latter part of the year, all forms of consumption shared in this decline. The consumption of cigars declined about 10 per cent, as compared with 1930, cigarettes declined 5 per cent, snuff 1.3 per cent, and manufactured tobacco (smoking and chewing combined) 0.2 per cent. In January 1932, the declines for these products, as compared with January 1931, appeared to be about in line with the declines for other recent months.



Until recently it has been asserted frequently that the consumption of tobacco products in the United States was affected little if any by the general level of business activity, that such consumption was, so to speak, "depression proof." Events of the past several months have clearly established the fallacy of such beliefs, and recent studies indicate that the rate of tobacco consumption always has been influenced materially by the extent of prosperity or depression. One important reason for this is that retail prices of tobacco products change only slowly, and, in periods of depression, they have been seldom decreased extensively, and, frequently, for reasons of taxation or otherwise, they have been increased.

Throughout the past decade there was a very marked relationship between the rate of expansion in cigarette consumption and the rate of activity in general business (See fig. 1). In years when industrial activity was greater than usual the increase in cigarette consumption was greater than usual, and in years when industrial activity was less than usual cigarette consumption increased less than usual. During 1931 cigarette consumption showed an actual decline from that of the preceding year.

When the consumption of cigarettes, smoking tobacco and chewing tobacco is combined and studied in relation to business activity, it is evident that there is a very marked tendency for the two to move together (See fig. 2). Here it is shown that the total per capita consumption of these three products usually is above normal when business activity is above normal and vice versa. This has been true during the entire period for which data are available, although the accompanying figure shows the relationships only since 1915. The significance of this fact is that although in times of depression there may be some temporary substitution of cheaper smoking mixtures for cigarettes, as in 1921 and 1922 and in 1931, the total consumption of products made from the "cigarette types" of tobacco is less than in other times.

The consumption of cigars in 1931 showed a greater and more continuous decline, as compared with 1930, than that of any other products. This occurred in spite of a further shift of higher priced cigars into lower priced groups, which amounted to a significant reduction in average retail prices (See fig. 3). Inasmuch as 1931 was the second consecutive year of decline in cigar consumption, and since the industry already had been having difficulty in maintaining output, the producers of cigar tobacco have been faced with an unusually weak demand for their loaf.

#### Demand in foreign countries

Throughout the current marketing season the buying of tobacco for export has been considerably below normal. Since approximately 40 per cent of the total production of the United States usually is exported, it is apparent that this has contributed greatly to the weakened demand for the 1931 crop.

Consumption in most foreign countries, like that in the United States, declined in 1931. In Europe, where from 25 to 30 per cent of our total production is normally used, consumption for 1931 was approximately 10 per cent less than in 1930. The consumption of all classes of products was reported to be well below that of 1930 but the decline in snuff and chewing tobacco appeared to be less than that of other classes. This was because of the higher prices and heavier burdens of taxation borne by the more popular

forms of consumption. In general, the decline was greatest in those countries in which prices of tobacco products were increased in 1930 or at the beginning of 1931 as, for example, in Germany, Hungary, and Italy. Although the tobacco imported from the United States appears to have been affected less than that imported from other countries, by the decline in European consumption, nevertheless the extent of reaction in our markets appears to have been considerable.

The influence of unfavorable exchange rates and financial difficulties within some of the countries has been to encourage more hand-to-mouth buying and thus result in a backing-up of supplies in the United States. To the extent that this represents more postponement of purchases, to be made later from this country, it may be anticipated that eventually the amount exported will approximate normal takings. However, even this potential buying power has not given its usual support to the market in establishing prices for the 1931 crop.

Production of the types of tobacco that compete with the types grown in the United States was increased to some extent in 1931. This was particularly true of several of the countries in Europe, of China, Canada, and South Africa. The increase in Europe represented types which are most likely to displace a part of our fire-cured exports while that in the other countries appears to compete more directly with flue-cured.

Exports of flue-cured tobacco during the seven months July 1931 to January 1932, were 216 million pounds. This was 23 per cent less than the quantity exported during the same period in 1930-31 and 13 per cent less than the 5-year average 1925-26 to 1929-30. Following the abandonment of the gold standard in the United Kingdom exports to that country declined sharply, but in November and December the exports to China were enough larger than usual to offset most of this decline. However, since the United Kingdom normally buys high priced tobacco <sup>1/</sup> and since China recently has been taking mostly low priced grades, this maintenance in quantity exported did not result in a maintenance of the value of exports. In January 1932, flue-cured exports totaled only 20 million pounds, which was the smallest quantity for any January since 1923. Shipments to all important countries for the month were materially below normal.

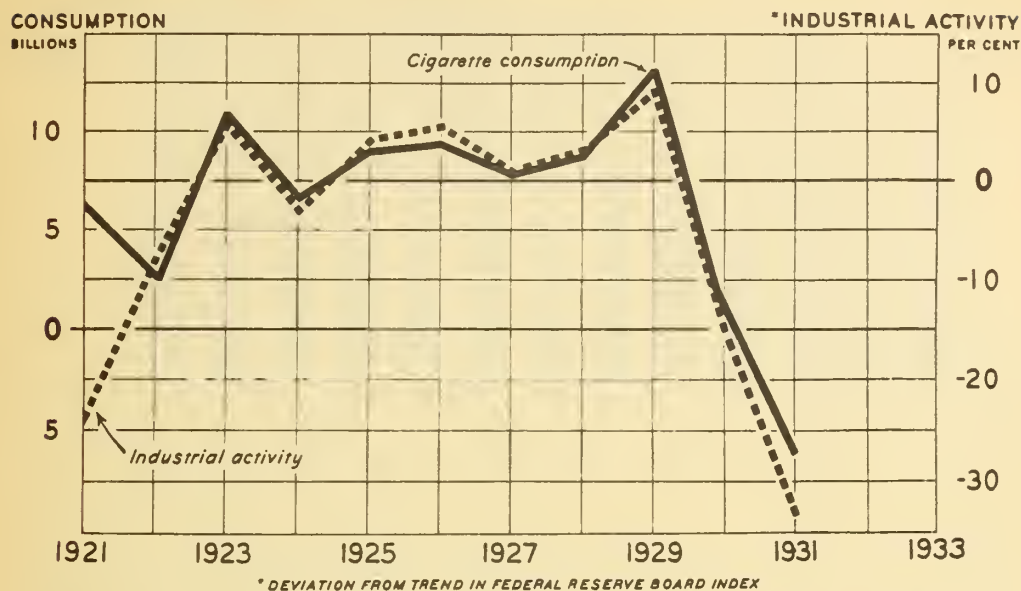
Exports of the fire-cured types in December continued on a greatly restricted scale, being 40 per cent less than in January 1931 and 75 per cent less than the 5-year average, 1926-1930, for that month. For the full year 1931 exports of the Kentucky-Tennessee types were 69 million pounds, compared with 105 million pounds in 1930 and 80 million pounds in 1929. Exports of Virginia fire-cured in 1931 were 12 million pounds compared with 15 million pounds in 1930 and a 5-year average, 1925-1929, of 21 million pounds. Exports of the dark air-cured types and of Maryland tobacco also have suffered drastic reductions, in comparison with previous years.

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<sup>1/</sup> This is partly because of the discriminating tastes of British smokers and partly because of the high import duty on raw tobacco. The existing tariff is \$2.32 per pound of tobacco at par of exchange, \$1.65 at the present rate of exchange.

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## Yearly Increases in U.S. Consumption of Cigarettes and Industrial Activity, 1921-1931

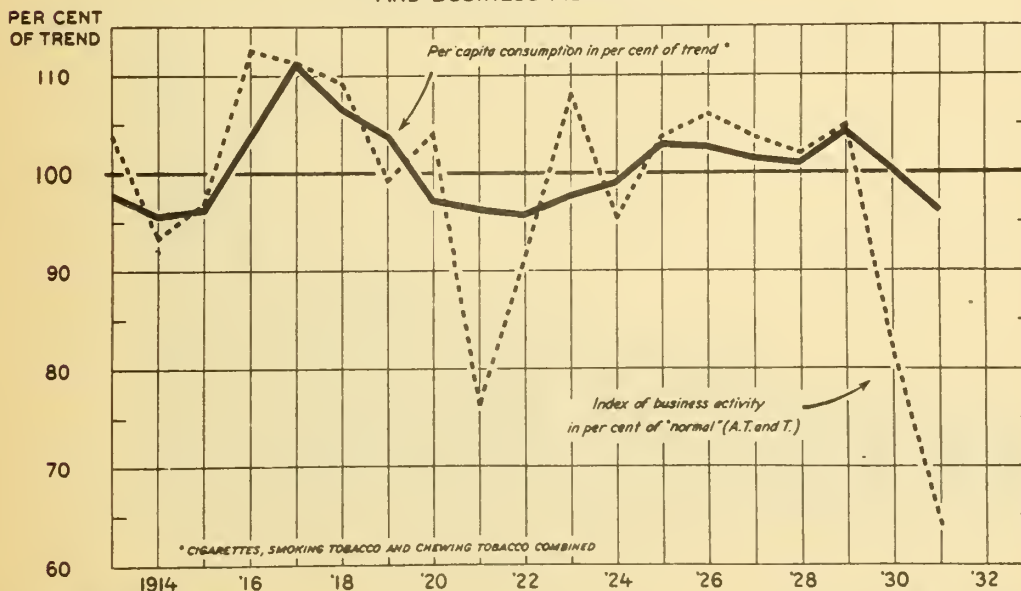


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FIGURE 1 - THE RATE OF EXPANSION IN CIGARETTE CONSUMPTION HAS SHOWN A PRONOUNCED TENDENCY TO FOLLOW CHANGES IN INDUSTRIAL ACTIVITY. IN 1931 WHEN INDUSTRIAL ACTIVITY WAS AT AN EXTREMELY LOW LEVEL CIGARETTE CONSUMPTION SHOWED AN ACTUAL DECREASE FROM THAT OF THE PRECEDING YEAR

## PER CAPITA CONSUMPTION OF SELECTED TOBACCO PRODUCTS AND BUSINESS ACTIVITY



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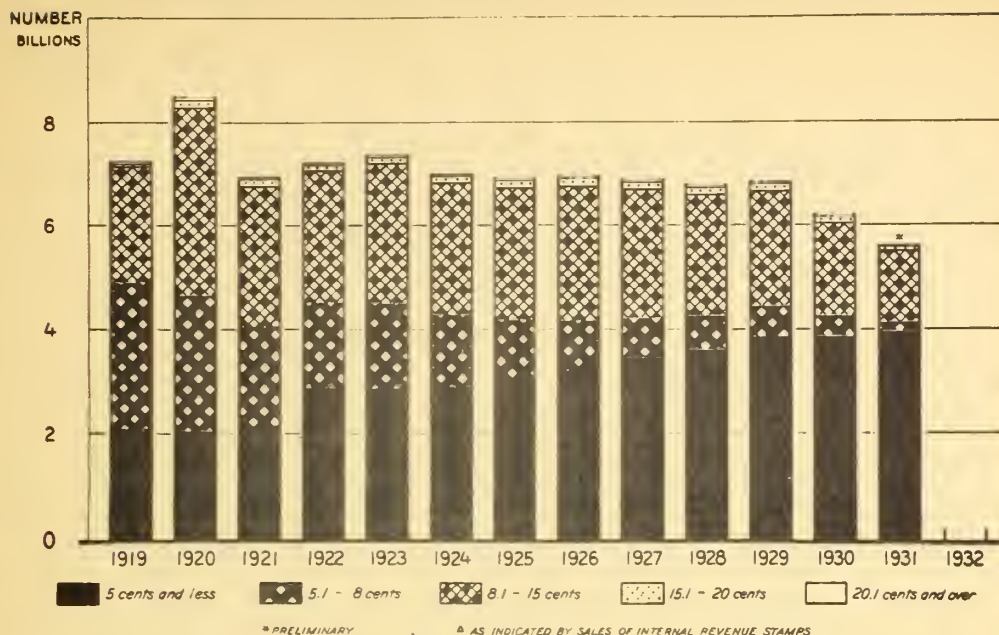
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FIGURE 2 - THE PER CAPITA CONSUMPTION OF ALL PRODUCTS MADE FROM FLUE-CURED AND AIR-CURED TOBACCO VARIES DIRECTLY WITH BUSINESS ACTIVITY. IN TIMES OF DEPRESSION THE SUBSTITUTION OF CHEAPER SMOKING MIXTURES FOR CIGARETTES DOES NOT PREVENT TOTAL CONSUMPTION FROM DECLINING





# CIGARS: CONSUMPTION IN THE UNITED STATES CLASSIFIED ACCORDING TO PRICES AT WHICH INTENDED TO RETAIL\*

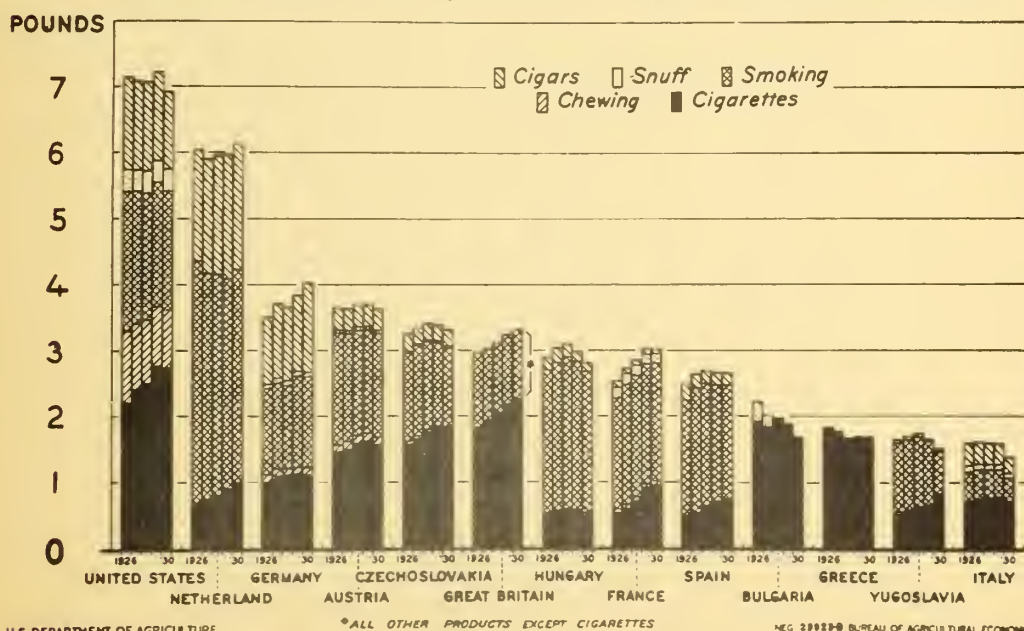


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FIGURE 3 - CIGARS INTENDED TO RETAIL AT 5 CENTS EACH, OR LESS, HAVE INCREASED FROM 29 PER CENT OF THE TOTAL IN 1919 TO ABOUT 70 PER CENT OF THE TOTAL IN 1931. NEVERTHELESS, THE CONSUMPTION OF ALL CLASSES OF CIGARS COMBINED DECLINED, BOTH IN 1930 AND 1931

## Tobacco Products: Consumption Per Capita in U.S. and Selected European Countries, 1926-1930



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FIGURE 4 - TOBACCO EXPORTED FROM THIS COUNTRY TO THE UNITED KINGDOM IS USED LARGELY FOR MAKING CIGARETTES; THAT EXPORTED TO CONTINENTAL EUROPE IS USED CHIEFLY IN SMOKING MIXTURES, CHEWING TOBACCO AND SNUFF. CONSUMPTION OF THESE PRODUCTS IN MOST COUNTRIES WAS LESS IN 1931 THAN IN 1930

